

## Quarterly Commentary

### Quantitative Portfolio:

# Factor-Enhanced Emerg Mrkts ADR: V + M + Q

Third Quarter (Q3) 2022

## Market Environment

The US economy continued to have difficulty in the quarter, as surging inflation and the effects of central bank efforts to tame it, have caused growth to turn negative. Against this backdrop, the Bureau of Economic Analysis released the third estimate of the second quarter 2022 real GDP, a seasonally adjusted annualized decline of 0.6%, in line with the prior estimate, and a slight improvement from the 1.6% decrease in the prior quarter. The employment situation continued to show a strong trend in the quarter, as gains modestly exceeded expectations. The August report showed that employers added 315,000 jobs in the month, and that the unemployment rate rose to 3.7%. The Federal Open Market Committee (FOMC), in an effort to aggressively battle surging inflation, twice raised its federal funds rate target range in the quarter, to 3.00% to 3.25%, from a range of 1.50% to 1.75%. The 75-basis point increase on September 21st was the third this year, and many economists expect the FOMC to continue to aggressively raise rates until inflation is under control.

## Portfolio Commentary

The Factor-Enhanced Emerg Mrkts ADR: V + M + Q strategy delivered a gross total return of -8.54% in the third quarter, decidedly outgaining the -13.86% return of the S&P/BNY Mellon EM Classic ADR TR USD. On a year-to-date basis the strategy has generated a return of -26.50%, while the benchmark has posted a -28.67% return. The strategy is quantitatively constructed to provide exposures to the primary drivers of return and excess return identified over decades of financial research. These include exposures to the market, as well as to the well-known value, momentum and quality asset pricing factors.

Due to the strategy's sector-neutral construction at the time of rebalancing, sector allocation will generally have a relatively minor effect on performance. Such was the case during the latest quarter, as the portfolio's relative performance was driven predominantly by individual security selection. Sector allocation contributed 63 basis points during the quarter, whereas stock selection within sectors accounted for 469 basis points. The sectors having the most positive relative impact from a security selection perspective were Communication Services and Consumer Discretionary, and the sectors that contributed the least on a relative basis were Industrials and Cash Effect.

The strategy strives to capture exposures to the well known value, momentum and quality asset pricing factors. These tilts produced mixed results in the quarter, with momentum positively contributing 40 basis points to the portfolio's performance, but value and quality detracting 111 and five basis points, respectively.

The primary contributor to the performance of the Factor-Enhanced Emerg Mrkts ADR: V + M + Q strategy performance during the quarter was an underweight to Alibaba Group Holding Limited (BABA). The Internet and Direct Marketing Retail company fell by almost 31% on an absolute basis, and lagged the -22.3% return of the Consumer Discretionary sector. The stock contributed 145 basis points to performance.

The portfolio's overweight to Gerdau S.A. (GGB) also contributed positively to performance in the quarter. The Metals and Mining company's stock advanced over 10% on an absolute basis, and also outperformed the -8.4% return of the Materials sector. The position contributed 75 basis points to performance.

Another positive contributor to portfolio performance was an overweight to Banco do Brasil S.A. (BDOR.Y), as the stock added close to 19%. The Banks firm also outperformed the -5.4% return of the overall Financials sector. The overweight position contributed 63 basis points to performance.

A primary detractor from performance during the quarter was an overweight to Vipshop Holdings Limited (VIPS). The Internet and Direct Marketing Retail company fell by almost 17%, outpacing the -22.3% return of the Consumer Discretionary sector. The overweight position detracted 29 basis points from performance.

An overweight to 360 DigiTech, Inc. (QFIN) during the quarter also hurt performance, as the stock advanced in excess of 25%. The Consumer Finance company detracted 27 basis points from performance, and also trailed the -5.4% return of the Financials sector.

Another detractor from portfolio performance was an overweight to Grupo Televisa, S.A.B. (TV), as the stock retreated more than 35%. In addition, the Media firm underperformed the -21.9% return of the overall Communication Services sector. The overweight position detracted 24 basis points from performance.

The global economy is currently teetering on the brink of recession after having delivered a strong post-pandemic recovery. Decades-high inflation caused by supply shortages and rising commodity prices have caused the Federal Open Market Committee and other world central banks to aggressively tighten monetary policy. Heightened volatility is likely to continue in the financial markets until there is improvement on the inflation front.

## Model Portfolio Attribution

	Performance Driver	Active Return Contribution	Portfolio Exposure	Average Weight in Model	Comments
Contributors	Alibaba Group Holding Limited (BABA)	+145 bps	Underweight	1.06%	The stock of the Consumer Discretionary company declined 31% in the quarter, and also underperformed the overall sector's return.
	Gerdau S.A. (GGB)	+75 bps	Overweight	3.08%	GGB, a Materials company, advanced 10% in the quarter, and outperformed the overall sector's return.
	Banco do Brasil S.A. (BDOR.Y)	+63 bps	Overweight	2.43%	The Financials company BDOR.Y advanced 19% in the quarter, and outperformed the overall sector's return.
	PT Bank Mandiri (Persero) Tbk (PPER.Y)	+57 bps	Overweight	2.34%	PPER.Y's gain of 22% outperformed the general sector in the quarter.
	Petróleo Brasileiro S.A. - Petrobras (PBR)	+52 bps	Overweight	2.53%	The stock of the Oil, Gas and Consumable Fuels firm advanced 15% in the quarter.
Detractors	Vipshop Holdings Limited (VIPS)	-29 bps	Overweight	3.36%	VIPS's loss of 17% outperformed the general sector in the quarter.
	360 DigiTech, Inc. (QFIN)	-27 bps	Overweight	1.97%	The stock of the Financials company declined 25% in the quarter, and also underperformed the overall sector's return.
	Grupo Televisa, S.A.B. (TV)	-24 bps	Overweight	1.06%	Underperforming the overall sector's return, the Communication Services company TV declined 35% in the quarter.
	Baозun Inc. (BZUN)	-24 bps	Overweight	0.62%	The Internet and Direct Marketing Retail company's stock fell by 45% in the quarter.
	HUYA Inc. (HUYA)	-21 bps	Overweight	0.48%	HUYA, a Communication Services company, declined 46% in the quarter, and also underperformed the overall sector's return.

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QRG's investment process is guided by systematic, quantitative and rules-based methodologies that helped inform the construction of the portfolio discussed herein using a subset of the constituents of its designated tracking index. The narrative portion of this commentary references the three largest contributors to performance and the three largest detractors from performance. The attribution chart includes the five largest contributors to performance as well as the five largest detractors from performance. The top contributors and detractors to performance may be based on security weightings (positions held or not held, overweight or underweight positions) or sector weightings.

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# QRG Factor-Enhanced Emerg Mrkts ADR: V + M + Q

Period	*Pure Gross Return	Net Return	S&P/BNY Mellon EM Classic ADR TR USD Return	Number of Portfolios End of Period	Equal Weighted Std. Dev.	Composite 3-year Std. Dev.	Benchmark 3-year Std. Dev.	Total Composite Assets	Total Product Assets	Firm AUM	Composite Assets as Percentage of Total Firm
**2017-06-01 - 2017-07-31	8.33%	7.81%	9.35%	1	nm	n/a	n/a	109,584	109,584	605,645,493	0.02%
**2017-10-01 - 2017-12-31	10.69%	9.89%	7.48%	2	nm	n/a	n/a	373,475	852,071	802,232,195	0.05%
2018	-19.10%	-21.54%	-15.61%	3	nm	n/a	n/a	480,314	2,349,693	1,604,283,375	0.03%
2019	20.67%	17.15%	24.01%	15	n/a	n/a	n/a	4,517,624	6,295,564	2,723,594,504	0.17%
2020	16.30%	12.89%	18.02%	19	n/a	20.04%	20.98%	6,477,442	11,326,002	4,011,352,178	0.16%
2021	-0.83%	-3.77%	-11.81%	16	0.34%	19.23%	19.95%	3,295,349	15,296,465	5,883,211,018	0.06%

\*Presented as supplementary information.

\*\*Partial year.

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The QRG Factor-Enhanced Emerg Mrkts ADR: V + M + Q composite is comprised of all fee-paying, discretionary accounts with at least \$100,000 in assets. Accounts are added to the composite at the beginning of the month after they are fully invested. If the market value and net investment of the account falls below \$100,000 it is removed until the next reconciliation and calculation period. Accounts that have a significant cash flow, defined as 20% of the beginning market value, will be removed from the composite until the next reconciliation and calculation period. Financial leverage is not employed as part of the investment strategy. There was a break in performance between 8/1/2017 and 9/30/2017 due to all eligible accounts becoming non-discretionary and leaving the composite

All information is based in US dollars. Pure gross results are shown gross of all fees and trading expenses. Net results reflect the pure gross return minus a 3% model WRAP fee that includes management fees, trading costs, platform fees, and other administration fees as well as a model custodian fee of 0.25% that includes brokerage commissions, but do not include other administration fees. Clients who access these strategies through a financial intermediary firm may pay additional fees to that firm. Actual fees may vary. The current management fee schedule is as follows: Up to \$500,000 - 0.20%, \$500,000 to \$1 million - 0.18%, \$1 million to \$2 million - 0.17%, \$2 million to \$5 million - 0.15%, \$5 million to \$10 million - 0.12%, \$10 million and up - 0.09%. All returns reflect the reinvestment of all dividends and interest income.

Returns are time weighted and calculated using the Modified Dietz method. All cash flows trigger a performance sub-period which are geometrically linked to create monthly returns. Monthly returns are geometrically linked to create quarterly and yearly returns. Neither the composite nor the benchmark returns reflect tax withholding for ordinary income or capital gains. Dispersion is measured by an equal-weighted standard deviation of the pure gross returns of all accounts in the composite for the entire four-quarter period. Internal dispersion is deemed non-material (nm) if fewer than five portfolios are in the composite over the reporting period, or not applicable (n/a) if no accounts are eligible over the entire reporting period. The 3- year standard deviation is calculated using pure gross returns, and is considered not applicable (n/a) for periods with less than three years of performance. Policies for valuing investments, calculating performance, and preparing GIPS reports are available upon request.

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Percentage of strategy assets represented by WRAP accounts at period end:

2017 - 100%

2018 - 100%  
2019 - 100%  
2020 - 100%  
2021 - 100%

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